

## Message Text

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12

ACTION EUR-12

INFO OCT-01 AF-06 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 /117 W

----- 078084

R 230930Z SEP 75

FM AMEMBASSH BERN

TO SECSTATE WASHDC 1386C

INFO AMEMBASSY BONN

AMEMXASSY LONDON

AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

USMISSION GENEVA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL ZURICH

UNCLAS SECTION 1 OF 2 BERN 3958

DEPT PASS TREASURY AND FRB

GENEVA FOR MTN DELEGATION

EO 11652: N/A

TAGS: EFIN ECON SZ

SUBJ: SWISS FINANCIAL AND ECONOMIC DEVELOPMENTS: WEEK OF SEP 14-20

1. SUMMARY: THE DOLLAR CONTINUED TO STRENGTHEN THIS WEEK WHILE GOLD PRICES FELL DRAMATICALLY. A HIGH-LEVEL SWISS DELEGATION WILL GO TO BRUSSELS SEP 22 TO DISCUSS SWITZERLAND'S ENTRY INTO THE SNAKE. THE SWISS NATIONAL BANK HAS RECOMMENDED THAT THE FEDERAL COUNCIL CONTINUE TO FOLLOW A WAIT-AND-SEE POLICY REGARDING MEMBERSHIP IN THE IMF. THE MONEY AND CAPITAL MARKETS ARE STILL QUITE LIQUID AND THE MAJOR BANKS HAVE CUT SOME SHORT-TERM INTEREST RATES.

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THE SWISS BANKERS' ASSOCIATION HAS CHANGED ITS POLICY AND NOW

SUPPORTS GIVING THE SNB PERMANENT BUT LIMITED POWERS TO CONTROL THE MONEY SUPPLY. SWITZERLAND'S FOREIGN TRADE DECLINED AGAIN IN AUG. ACTIVITY IN THE CONSTRUCTION SECTOR IS STILL VERY DEPRESSED AND SECOND QUARTER INDUSTRIAL PRODUCTION WAS DOWN SHARPLY. SNB VICE PRESIDENT AND GENERAL MANAGER SCHURMANN PREDICTS LOWER INFLATION AND HIGHER UNEMPLOYMENT LATTER THIS YEAR.

#### FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: STIMULATED BY THE MOST RECENT INCREASE IN THE US PRIME RATE AND THE JUMP IN THE AUG INDEX OF INDUSTRIAL PRODUCTION, THE SPOT DOLLAR CONTINUED TO STRENGTHEN IN MODERATELY ACTIVE TRADING THIS FOUR-DAY WEEK (MONDAY, SEP 15, WAS A HOLIDAY IN ZURICH). WHILE FALLING AGAINST THE DOLLAR, THE SF ROSE A BIT AGAINST THE D-MARK. UNCERTAINTY ABOUT FUTURE IMF GOLD SALES CONTINUED TO DEPRESS THE ZURICH GOLD MARKET. PRICES FELL TO A 14-MONTH LOW OF \$133.00 DURING THE DAY ON SEP 19 BUT RECOVERED SOMEWHAT BY THE CLOSE OF THE DAY. THROUGHOUT THE WEEK, GOLD TRADING WAS NERVOUS AND ACTIVE, AND SELLERS CONTINUED TO OUTNUMBER BUYERS DESPITE STATEMENTS BY SWISS NATIONAL BANK (SNB) PRESIDENT LEUTWILER AND OTHERS WHICH, BY LISTING THE QUESTIONS RELATED TO IMPLEMENTATION OF THE AGREEMENT ON GOLD WHICH HAVE YET TO BE RESOLVED, CAST SOME DOUBT AS TO WHETHER THEY THOUGHT IMPLEMENTATION WOULD TAKE PLACE. SPEAKING BEFORE THE SWISS-AMERICAN CHAMBER OF COMMERCE, LEUTWILER SAID THAT THE QUESTIONS CONNECTED WITH THE GOLD DECISION WERE NOT LIKELY TO BE RESOLVED TO EVERYONE'S SATISFACTION AT THE NEXT BIS MEETING OF CENTRAL BANKERS. (IN AN EARLIER STATEMENT, LEUTWILER SAID THAT SWITZERLAND WOULD PROBABLY AGREE WITH THE IMF DECISION SO LONG AS SWITZERLAND WOULD BE ALLOWED TO UNDERTAKE CERTAIN GOLD TRANSACTIONS IN THE INTEREST OF ITS EXPORT TRADE.) IN ITS LATEST WEEKLY BULLETIN, THE UNION BANK OF SWITZERLAND TOLD ITS CLIENTS TO "HOLD ON, DON'T PANIC" AND POINTED OUT THAT THERE WOULD BE NO IMF GOLD SALES UNTIL THERE IS A RESOLUTION OF THE "RELIGIOUS" DISPUTE ON FIXED VERSUS FLOATING EXCHANGE RATES. THUS FAR THESE STATEMENTS HAVE HAD LITTLE OR NO IMPACE ON THE MARKET. FURTHERMORE, THE BMASST UNDERSTANDS THAT MANY PEOPLE NOW HOLDING GOLD BOUGHT AT AROUND \$130.00 AND MAY WELL HAVE GIVEN THEIR BANKERS STOP-LOSS ORDERS TO SELL AT THAT LEVEL. IF PRICES SHOULD DROP THAT LOW, THERE COULD BE A FRUTHER GENERAL RASH OF SELLING WHICH WOULD PUSH PRICES EVEN LOWER. RATES AS FOLLOWS:

9/16 (OPEN)      9/19 (CLOSE)

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|                               |           |           |
|-------------------------------|-----------|-----------|
| SPOT DOLLAR                   | SF 2.7022 | SF 2.7195 |
| FORWARD DISCOUNTS (PCT. P.A.) |           |           |
| ONE MONTH                     | - 4.5     | - 4.0     |
| 3 MONTHS                      | - 4.6     | - 4.6     |
| 6 MONTHS                      | - 4.4     | - 4.3     |
| SF/DM                         | SF 103.81 | SF 103.06 |
| GOLD                          | \$147.75  | \$135.50  |

3. SWITZERLAND AND THE SNAKE: THE FEDERAL COUNCIL HAS APPOINTED A TOP-LEVEL DELEGATION, HEADED BY FINANCE MINISTER CHEVALLAZ AND SNB PRESIDENT LEUTWILER, TO DISCUSS SWISS ENTRY INTO THE SNAKE WITH MEMBER COUNTRIES' FINANCE MINISTERS IN BRUSSELS ON SEP 22. ACCORDING TO A GOS COMMUNIQUE, THE DELEGATION WILL "CONFIRM AND DEFINE" THE PROVISIONS OF POSSIBLE SWISS ENTRY AND THEN REPORT BACK TO THE FEDERAL COUNCIL. THE COMMUNIQUE STRESSED THAT SWITZERLAND IS NOT PREPARED TO ACCEPT ANY CONDITIONS FOR ENTRY THAT GO BEYOND THE ACTUAL MECHANISM OF THE SNAKE SYSTEM ITSELF. IN THE ABOVE MENTIONED CHAMBER OF COMMERCE SPEECH, LEUTWILER SAID THAT SWITZERLAND IS WILLING TO ASSUME THE RESPONSIBILITIES OF MEMBERSHIP BUT IS "NOT PREPARED...TO MAKE ANY CONCESSIONS BEYOND THE OBLIGATIONS ENTERED INTO BY THE OTHER SNAKE MEMBERS."

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ACTION EUR-12

INFO OCT-01 AF-06 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 /117 W

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R 230930Z SEP 75

FM AMEMBASSY BERN

TO SECSTATE WASHDC 1387

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

47\*#&:/USMISSION GENEVA 1138

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL ZURICH

UNCLAS SECTION 2 OF 2 BERN 3958

DEPT PASS TREASURY AND FRB

GENEVA FOR MTN DELEGATION

4. SWITZERLAND AND THE IMF: ALSO IN THE CHAMBER OF COMMERCE SPEECH, LEUTWILER SAID THAT THE MOST RECENT SNB REPORT TO THE FEDERAL COUNCIL ON SWISS MEMBERSHIP IN THE IMF RECOMMENDED A CONTINUATION OF THE "WAIT-AND-SEE POLICY." WHILE HE DID NOT GO INTO DETAILS ABOUT THE RATIONALE BEHIND THIS DECISION, LEUTWILER DID MENTION THE CURRENT UNCERTAINTY ABOUT INTERNATIONAL MONETARY AFFAIRS AND THE DESIRE TO RETAIN FREEDOM OF ACTION TO RESOLVE SWISS MONETARY PROBLEMS.

5. MONEY AND CAPITAL MARKETS: THE CALL MONEY RATE WAS UNCHANGED AT 0.5 PERCENT ALL WEEK. LIQUIDITY WAS IN GOOD SUPPLY WITH LITTLE UNCLASSIFIED

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DEMAND. THE MAJOR BANKS HAVE ANNOUNCED A REDUCTION IN THE INTEREST RATE ON SHORT-TERM COMMERCIAL CREDITS FROM 7.5 TO 7.25 PERCENT. EFFECTIVE OCT 1; THE BANKS WILL REDUCE THE INTEREST PAID ON SAVINGS ACCOUNTS BY 0.25 TO 0.5 PERCENTAGE POINTS. TRADING ON SWISS STOCK EXCHANGES WAS LISTLESS AND PRICES EASED LOWER; THE SKA INDEX FELL FROM 180.7 (END 1959 EQUALS 100) ON SEP 12 TO 177.6 ON SEP 19. THE FEDERAL COMMISSION RESPONSIBLE FOR REGULATING ACTIVITY ON THE DOMESTIC CAPITAL MARKET HAS DECIDED NOT TO FIX ANY OVERALL CEILING ON NEW LOAN ISSUES FOR THE LAST QUARTER OF THE YEAR. THIS DECISION WAS TAKEN IN VIEW OF THE HIGH DEGREE OF LIQUIDITY AVAILABLE IN BOTH THE CAPITAL AND MONEY MARKETS. THE COMMISSION HAS APPROVED 42 NEW DOMESTIC BOND ISSUES TOTALLING APPROX SF 2 BILLION FOR ISSUANCE IN THE OCT-DEC PERIOD. A NUMBER OF SMALL LOANS AMOUNTING TO SOME SF 8 MILLION WERE ALSO APPROVED. THE MEDIAN YIELD ON OUTSTANDING CONFEDERATION BONDS ROSE SLIGHTLY FROM 6.14 PERCENT ON SEP 12 TO 6.17 PERCENT ON SEP 19.

6. COMMERCIAL BANKS AND MONETARY POLICY: A REPORT PUBLISHED THIS WEEK BY THE SWISS BANKERS' ASSOCIATION SUPPORTS GRANTING THE SNB PERMANENT POWERS TO CONTROL THE MONEY SUPPLY BY SETTING INTEREST RATES ON SAVINGS ACCOUNTS, ADJUSTING THE OFFICIAL DISCOUNT RATE, AND THROUGH OPEN MARKET OPERATIONS. THIS IS A CONSIDERABLE CHANGE FROM THE ASSOCIATION'S PREVIOUS POSITION WHICH FAVORED THE USE OF GENTLEMEN'S AGREEMENTS BETWEEN THE BANKS AND THE SNB AND OPPOSED ANY PERMANENT AUTHORITY FOR THE SNB. IN ITS REPORT, THE ASSOCIATION WAS CRITICAL OF THE USE OF EMERGENCY DECREES, PARTICULARLY THE DECREE AUTHORIZING DIRECT CREDIT CONTROLS.

ECONOMIC

7. FOREIGN TRADE: AFTER REGISTERING TRADE SURPLUSES IN BOTH ITS TRADE WITH THE WORLD AND WITH THE US IN JUL, SWITZERLAND'S FOREIGN TRADE ACCOUNT MOVED BACK INTO ITS ACCUSTOMED DEFICIT POSITION IN AUG. TOTAL IMPORTS, HOWEVER, ARE STILL FALLING AT A FASTER RATE THAN EXPORTS. THE US SHARE OF SWISS IMPORTS ROSE TO 8.0 PERCENT IN AUG,

A MARKED IMPROVEMENT OVER JUL'S 6.0 PERCENT SHARE. THE TRADE FIGURES FOR AUG AND THE FIRST 7 MONTHS OF THE YEAR ARE SHOWN BELOW.

|  | WORLD                                         | US |
|--|-----------------------------------------------|----|
|  | MILLION SF (PCT CHANGE OVER SAME PERIOD 1974) |    |

AUG

|         |               |             |
|---------|---------------|-------------|
| IMPORTS | 2,311 (-27.3) | 185 (-20.5) |
|---------|---------------|-------------|

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|         |               |             |
|---------|---------------|-------------|
| EXPORTS | 2,168 (-10.5) | 151 (-27.3) |
|---------|---------------|-------------|

|         |             |            |
|---------|-------------|------------|
| DEFICIT | 143 (-76.7) | 34 ( 37.3) |
|---------|-------------|------------|

JAN-AUG

|         |                |              |
|---------|----------------|--------------|
| IMPORTS | 22,941 (-20.9) | 1,774 (-7.4) |
|---------|----------------|--------------|

|         |               |               |
|---------|---------------|---------------|
| EXPORTS | 21,340 (-7.8) | 1,257 (-22.8) |
|---------|---------------|---------------|

|         |               |            |
|---------|---------------|------------|
| DEFICIT | 1,601 (-72.7) | 517 (80.2) |
|---------|---------------|------------|

8. CONSTRUCTION INDUSTRY: THE CONSTRUCTION INDUSTRY IS ONE OF THE MOST DEPRESSED SECTORS OF THE SWISS ECONOMY, AND THE LATEST FIGURES ON BUILDING ACTIVITY SHOW A CONTINUING DETERIORATION. RESIDENTIAL BUILDING PERMITS ISSUED IN THE FIRST 7 MONTHS OF THE YEAR ARE 34.5 PERCENT BELOW THE SAME PERIOD IN 1974 (WHICH IN TURN, WAS WELL BELOW THE LEVEL OF PREVIOUS YEARS). THE NUMBER OF PERMITS ISSUED THIS JUL WAS 62.4 PERCENT LESS THAN JUL 1974. IN THE SECOND QUARTER THIS YEAR THE VALUE OF BUILDING IN PROGRESS WAS DOWN 21.7 PERCENT (FROM SECOND QUARTER 1973), NEW ORDERS ARE DOWN 35.4 PERCENT, CAPITAL INVESTMENT IN THE INDUSTRY FELL 62.0 PERCENT, AND EMPLOYMENT WAS OFF 25.3 PERCENT. THE GOS HAS ALREADY TAKEN SOME ACTION TO ACCELERATE PUBLIC SECTOR SPENDING FOR CONSTRUCTION, BUT THE BUILDING TRADES ARE PRESSING HARD FOR ADDITIONAL MEASURES.

9. INDUSTRIAL PRODUCTION: THE INDEX OF PRODUCTION FOR THE SECOND QUARTER OF 1975 WAS 137 (1963 EQUALS 100) WHICH IS 17.0 PERCENT BELOW THE SAME PERIOD LAST YEAR. PRODUCTION OF ELECTRICITY AND GAS WERE THE ONLY COMPONENTS OF THE INDEX TO REGISTER INCREASES. THE LARGEST DECLINES OCCURRED IN THE PAPER (-32 PERCENT) AND WATCH (-25 PERCENT) INDUSTRIES.

10. ECONOMIC FORECAST: IN A SPEECH THIS WEEK, SNB VICE PRESIDENT AND GENERAL MANAGER LEO SCHURMANN PREDICTED THAT THE RATE OF INFLATION WOULD BE DOWN TO AN ANNUAL RATE OF 5 PERCENT BY THE END OF THIS YEAR. HE ALSO SAID UNEMPLOYMENT WOULD CONTINUE TO RISE, REACHING A LEVEL OF 20,000 TO 25,000 THIS WINTER (OR ABOUT DOUBLE THE PRESENT NUMBER).

ODELL

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** FINANCIAL STABILITY, ECONOMIC DEVELOPMENT, FINANCIAL DATA, FOREIGN EXCHANGE RATES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 23 SEP 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
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**Executive Order:** N/A  
**Errors:** N/A  
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**Legacy Key:** link1975/newtext/t19750923/aaaaauke.tel  
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**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
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**Previous Handling Restrictions:** n/a  
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**Review Content Flags:**  
**Review Date:** 16 JUN 2003  
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**TAGS:** EFIN, ECON, SZ  
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